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C O N F I D E N T I A L SECTION 01 OF 02 CAIRO 001855

SIPDIS

STATE FOR NEA/ELA AND EEB
COMMERCE FOR 4520/ITA/ANESA
ENERGY FOR ERICKSON AND SPERLE

E.O. 12958: DECL: 08/20/2018
TAGS: ECON EPET EMIN ENRG EINV PGOV PREL EG
SUBJECT: EGYPTIAN OIL MINISTER BULLISH ON RESERVES,
SOLICITOUS FOR INVESTMENT

REF: CAIRO 1359

Classified by Ambassador Margaret Scobey for reasons 1.4 (b) and (d).

¶1. (C) Summary: Egyptian Minister of Petroleum Sameh Fahmy told the Ambassador in an introductory call Aug. 21 that Egyptian oil and gas reserves exceed most estimates and will increase with new technology, including a speculative plan by an American company for a novel way to exploit hard-to-reach oil. Egypt will also begin producing gold from an area once mined by the pharaohs, while a Canadian firm promises to begin extracting polyhalite for fertilizer. Chinese and Russian energy companies are planning investments in Egypt, but major U.S. firms have not been interested, he said, soliciting more American participation in Egyptian energy development. He said he would like to see an end to the GOE's crushing expenses for energy subsidies but doubted the government could wind them down within the next five years for political reasons. End Summary.

## Oil, gas, Pharaohs' gold and Kuwaiti yachts

¶2. (C) Fahmy encouraged the Ambassador to visit Marsa Alam on the Red Sea, location of oil and gas fields, the new Kuwaiti resort development Port Ghalib, and a new gold mine in an area once mined by the pharaohs. While the ancient Egyptians dug down three meters, modern mines will reach down 30 meters to recover an estimated 13 million ounces of proven gold reserves, employing 4,000 Egyptians in the process, he said. Also in the area, a Canadian company plans to mine the mineral polyhalite for fertilizer production. Other areas of Upper Egypt have the potential for new oil development, he said, noting that an American company recently reported that it expects to recover between 250 million and 1 billion barrels of oil in its new concession in Upper Egypt. The Ministry plans to work with another American company, which he identified as Rockwell, that proposed a novel way to recover residual oil from depleted fields by mining beneath the fields.

¶3. (C) According to current independent estimates, Fahmy said, Egypt has 76 trillion cubic feet of proven natural gas reserves and 4.2 billion barrels of proven oil reserves, an increase from 4.1 billion reserves 14 years ago despite steady production during that time. Thanks to new discoveries and improving technology, proven reserves are increasing 3 percent a year, he said. Although increased domestic consumption could force Egypt to import natural gas in coming years, Fahmy said he viewed continuing exports a matter of fairness to the foreign companies that invest in Egyptian production.

¶4. (C) Fahmy seeks increased participation from major American energy companies in upstream development of new Egyptian oil and gas fields. When the GOE announces new concessions, about eight mid-sized American companies typically seek to participate, but major American companies do not, he said. He emphasized that Egypt is open to integrated upstream and downstream production, noting in passing that Chinese and Russian energy companies have been very interested in Egypt. One problem Egypt faces in increasing production is a brain drain to the Gulf, as higher salaries lure away skilled workers in upstream development, construction, petrochemicals and other fields, he said.

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Pipeline politics and subsidies
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¶5. (C) Fahmy said that he prefers to export natural gas through LNG production, rather than through pipelines, because of the political difficulties posed by pipelines and long-term pricing contracts. Fahmy and the GOE have faced severe criticism for long-term gas contracts signed when gas prices were well below current market rates (reftel). As a result, he said, the GOE sought contract revisions for higher prices from purchasers including Spain, France, Jordan and Israel. All but Israel have agreed to an increase, and he expects Israel to as well, he said.

¶6. (C) As an OPEC observer, Fahmy said he detected no particular vision or strategy for the organization during the last two years as members have been sated by high oil prices.



Egypt is basing its budget for the current fiscal year, which runs from July to June, on expectations of a significant oil price decrease to $90 a barrel, he said.

¶7. (C) GOE energy subsidies on consumer and industrial products including gasoline, diesel, and natural gas will cost the Egyptian treasury 72 billion Egyptian pounds this year ($13.6 billion), nearly 20 percent of overall government spending of 376 billion pounds ($71 billion) in the draft 2008-09 budget. Fahmy said the ruling National Democratic Party plans to work on a strategy for reducing the subsidies to free up spending for education, health, and job creation, although he predicted that political constraints would compel the government to continue subsidies for at least five years.
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